



1937

**Economic Conditions
Governmental Finance
United States Securities**



New York, July, 1937

General Business Conditions

THE month of June has brought a moderate decline in industrial activity, due in part to seasonal influences, but chiefly to the strikes in the steel, automobile and other industries. The shutdowns involving plants of the Republic, Bethlehem, Youngstown and Inland companies reduced steel mill operations from above 90 per cent of capacity to around 76. Automobile production has dropped about 15 per cent from the Spring peak; probably half of the decline is attributable to seasonal trends, and the remainder to the labor troubles, which have harassed General Motors in particular. It has been impossible for some producers to turn out as many cars as their orders on hand would justify.

In the consumers' goods industries production is receding from the Spring peak, though still at a rate well above a year ago, with factories working on old orders. New business has been sluggish. June falls between seasons in general merchandise lines, and is seldom an active month. Moreover, buyers covered forward requirements earlier in the year, in some cases over-optimistically, and the record-breaking output of textiles, apparel and goods of like character has replenished inventories in distributors' hands. Most estimates of the business situation this Summer allow for a slackening in these industries, as is normal after a strong upswing.

Retail trade has run ahead of last year by about the same margin as heretofore, starting the month better but slackening later. In four weeks ended June 18 Sears, Roebuck had a 20 per cent increase. Department store gains are smaller, and clearance sales figure more largely than usual in some areas. The month of June last year, with which current sales are compared, included the beginning of the veterans' bonus distribution, and this tends to hold down the percentage increases.

In the machinery and equipment industries the situation continues favorable. With few exceptions manufacturers have orders on their books which seem to make these industries

proof against early recession. Machine tool orders in May, while down from the all-time record set in April, were nevertheless more than double a year ago. Awards of building contracts in the first half of June were better than in May; on a daily average basis they showed an increase, which is contrary to the usual seasonal trend, and the gain over last year, which was 37 per cent, was the best since February. Engineering contracts placed during June reached the highest level since the Spring of 1930, and included \$55,000,000 for expenditure on two plants of the Carnegie-Illinois Steel Corporation.

The Half-Year Record

Except for the prevalence of labor disturbances, the facts given in this brief summary hardly seem to warrant much concern as to the business situation. It is a frequent observation, however, that business sentiment is not as good as the business facts, especially in quarters influenced by the declines in the security markets. In conjunction with the labor troubles, these declines have tended to spread conjecture as to the Fall prospect, and it is the usual thing to take fresh stock of the situation during the off-season.

The month of June completed a very satisfactory half-year in business, during which industrial production, employment and payrolls, the volume of trade, and business earnings were all higher than in any like period since the beginning of the depression. In brief, farmers and other producers of raw materials have been getting good prices for their production, labor has had more work at high wages, and incomes of most groups of the population have increased more rapidly than the cost of living. Manufacturers of goods of everyday use have enjoyed a phenomenal activity, exceeding the 1929 peak, which is practical evidence as to the improved balance in price relationships and the other elements that affect the exchange of goods. The industries have been spending more for betterments and expansion, and this has carried the recovery forward in lines hitherto lagging.

This improvement is all on record. It does not represent an abnormal expansion of business, when measured against the needs to be filled and the capacity available to fill them, or when compared with the past; and if the industries are allowed to operate with efficiency, keep their costs down, and price their goods at levels that will keep trade going, there will be little concern as to business in the second half-year.

The Labor Troubles

The apprehensions aroused by the labor situation divide naturally into two parts, one as to the loss of production, employment and purchasing power resulting from the strikes, and the other as to the increase in industrial costs and the effects upon business earnings and business spending. Of course the disturbances will not last indefinitely, and after they are overcome the loss of production will be made up, a truism recognized in the maxim which warns against selling stocks on strikes. If it is assumed, for example, that the steel industry would have experienced a Summer recession in any event, the aggregate of the year's operations may not be greatly affected, whether the curtailment occurs at one time through strikes, or at another through the voluntary action of the manufacturers, as determined by the market for steel.

It is certain that the more widespread the strikes become, and the more they run counter to the desire of the majority of the workers to keep at work, the nearer they are to the end. The reopening of several steel plants during the past week, with the workers furnished protection against violence, supplies evidence that the great majority want employment, and are anxious to work at the wages and conditions established. This much is clear, and it affords promise that the disturbances incited by minority groups will run their course without reaching greater extremes.

In the end the force of public opinion is the best assurance against the disruption of production by minorities. The most extreme possibility that could be imagined is that all organized labor should strike at once. If it did the strikers would represent no more than one-tenth of all the gainfully employed, and how long would it be before the other nine-tenths were heard from? Would they go on supporting the strikers, at great cost to themselves? Would the farmers keep on producing food for them, without demanding a voice in the matter? These are aspects which the labor leaders evidently must take into consideration.

Effects on Costs and Earnings

If the labor situation leads to pronounced increases in the cost of production, either through wage increases or loss of efficiency, it will have an adverse effect on trade; for it will

either cut into business earnings or compel price advances which will check the sale of goods. This is the chief cause of apprehension. According to common report, the industries which have been affected by the latest labor demands, including those which have acceded to them, have experienced a loss of efficiency, and show a rise in costs. It should be noted parenthetically that higher taxes also are a factor. The trend of industrial prices is upward, even though the rise in raw materials has been checked. What will be the trend of employment if price advances diminish trade and corporate earnings are reduced, so that the industries have less to spend and are less able to raise new money? This will be the outcome if costs of production are increased beyond the capacity of the industries to absorb through greater productivity or increased volume.

The hopeful aspect is that sentiment naturally puts the worst construction upon labor troubles at the time when they are most severe. If productive efficiency can decline it can also improve again. The element of teamwork in production is large, and when teamwork is disrupted by disputes and uncertainties, efficiency naturally declines. Conversely, it may be built up when harmonious relations are reestablished. Furthermore, over a period of time the industries are always offsetting shorter hours and higher wages through technical progress, including better management, improvements in plant and machinery, and new methods. Thus the reduced productivity, while damaging in the short run, may be but a setback in the long trend.

A similar comment may be made on the question of capital spending. If earnings are impaired the available funds for improvement are reduced, but at the same time there is a stronger stimulus to make capital betterments. The only way in which earnings can be recouped is to reduce costs, and cost reduction requires revamping of plants and modernization of machinery. The pressure to cut costs has been responsible for most of the progress in the capital goods industries during the past two years, and unquestionably manufacturers will continue to do everything within their means to keep costs down and maintain production.

Promising Crop Prospects

Crop prospects are more favorable than in several years, and this is exceedingly important in the Fall outlook. Not only is another increase in farm income indicated, but the railroads and others interested in the crop movement will benefit, and the consumer evidently will be able to buy many farm products at lower prices than last year. The Winter wheat crop is practically made, with the yield evidently well over 600,000,000 bushels. The Spring crop had the finest start in five or

six years, due to good early-season rains everywhere except in the western Dakotas and eastern Montana. Even with a poor yield in these areas, a large Spring crop would be assured except for the hazard of the black rust disease, which is present and could spread rapidly with high winds and wet weather. This is the disease which devastated the 1935 Spring crop. Barring a similar calamity, total wheat production this year might run to 850 million bushels or more, compared with 626,000,000 in 1936.

Moreover, the crop will bring good prices. The carryover of old wheat in this country July 1 is only 90,000,000 bushels, almost the lowest on record; and there is no surplus of wheat anywhere in the world. The Canadian prospect is none too good, and the yield will be reduced by severe drouth in southern Saskatchewan. With a crop exceeding 850,000,000 bushels, the United States would have 175,000,000 above domestic requirements, and is certain to be an exporter of wheat again for the first time since 1931. The futures markets have already adjusted themselves to an export basis, and shipments will be under way this month.

Clearly the wheat growers will have plenty to spend this year. They may have 250,000,000 bushels more wheat than last year and sell it 15 to 20 cents higher, according to current markets. This makes it certain that Fall business will be good in the wheat States; and the wheat price is a great influence on business sentiment, dating back to the times when a large crop movement at good prices more than once lifted this country out of depression.

It is early to judge the corn and cotton crops, but the start has been favorable in both cases, and the acreages are increased. The prospect of cheaper corn is heartening to the livestock industries, and the Corn Belt farmers will not lose by the lower price if they have larger crops and cheaper feed. In almost all the markets for farm products there is need of the larger production now in prospect, for the depression surpluses have been cleaned out and reserves are subnormal.

All observers, including the Department of Agriculture, agree that farm cash income in the second half of this year will be larger than last, the Department summing up in this fashion:

Increased marketings of crops probably will contribute most of this increase in income. The volume of marketings of livestock will be smaller than in the last 6 months of 1936, when the drought compelled a considerable amount of liquidation of cattle and hogs, but this decrease in volume will be offset more or less by higher prices. The volume of dairy products will be somewhat larger than in the corresponding period of 1936, and income from these products may be slightly greater. Marketings and income from poultry products may be somewhat smaller.

Money and Banking

The inflow of gold to this country, which in the first five months of the year totaled more than \$770,000,000, continued at an even greater rate during June, reaching a volume exceeded in only one or two months in our history. The increase in the monetary gold stock during the month has exceeded \$300,000,000. The gold stock passed \$12,000,000,000 early in June, and on the 26th stood at \$12,289,000,000.

These unprecedented gold imports result chiefly from the continued dehoarding of gold from private holdings in London and other European centers and from another outflow of capital from France. During the earlier months of the year gold from the private holdings was finding its way into the reported stocks of central banks and Treasuries at the rate of about \$100,000,000 a month. Toward the end of May this rate was speeded up by a fresh wave of rumors of an impending cut in the price of gold, and of further shipments out of the Soviet Union, both tending to persuade hoarders that there was more risk than hope of profit in holding gold; and despite official statements in London and Washington that no change in the gold policies of the two countries was necessary or contemplated, the offerings of the metal on the London bullion market for a time reached the highest totals ever known. Not until the latter part of June did the market assume a more normal aspect. The bulk of the gold offered, both dehoarded and newly-mined metal, was again taken for shipment to the United States.

In addition to dehoarding, London has been faced with the problem of dealing with another inflow of funds from France. The latest French fiscal crisis, which forced a change of Cabinets, stimulated demand for pound notes for hoarding in France, bringing the Bank of England's outstanding circulation to a record high level. The British Equalization Fund, whose sterling resources have apparently been drawn down by the absorption of dehoarded gold, resold a further \$40,000,000 to the Bank of England, partly to supply the Bank with backing for an increased note issue, but principally to replenish its own sterling funds. In anticipation of a continued capital inflow, and in order to instill confidence, Sir John Simon, the new British Chancellor of the Exchequer, has asked the Parliament for powers to augment the sterling resources of the Equalization Fund by a further £200,000,000. Total appropriations for the British exchange control will thus be brought to approximately £575,000,000 (over \$2,800,000,000), from which must be deducted the temporary bookkeeping losses which the Fund has entailed during the past five years on its sales of gold to the Bank of England at the old statutory rate of 85 shillings per ounce.

The Bank of Netherlands, the third country which has been absorbing gold, has increased its reserves in four weeks ended June 21 by about \$83,000,000. The Netherlands during June announced the virtual removal of the restrictions on gold exports which were imposed at the time of the devaluation of the guilder.

Dehoarding Likely to Slow Down

How much gold disappeared into private holdings in western Europe during the depression can be ascertained only in round figures because of fragmentary information on certain gold movements, particularly the holdings of the various stabilization funds, and on the supply of old gold. However, a simple month-to-month comparison of available information on the supply and demand for gold between the end of 1930 and the end of September, 1936, indicates that nearly \$3,000,000,000 "disappeared" or was unaccounted for during that period.

The rapid movement of this gold back into monetary stocks dates from the revaluation of the gold bloc currencies last September. The following table presents calculations which show that the disclosed gold reserves of 52 central banks and governments increased by \$2,261,000,000 during the past nine months. As only \$937,000,000 of this increase can be accounted for by newly-mined gold, outside of the Soviet Union, and by the shipments from the Soviet Union and the Far East, it follows that the gold received from undisclosed sources has exceeded \$1,300,000,000.

Estimated Dehoarded Gold—Sept. 1936 to June 1937
(In Millions of New Dollars)

	Sept. 1936	Dec. 1936	June 1937	9 mos. Period
Bk. Res. in 52 Countries	21,719	22,602	23,980*	
Change		+883	+1,378	+2,261
New or Non-Monetary Gold:				
Newly mined†		250	495	745
Shipped from India & China		30	27	57
Soviet Union Shipments	135	135
Total		280	657	937
Gold from Undisclosed Sources		603	721	1,324

* Estimated. † Outside of Soviet Union.

Apparently the dehoarding of \$1,300,000,000 reduced the amount of "disappeared" gold to about \$1,600,000,000. The latter figure, however, includes the undisclosed holdings of various stabilization funds. The British Equalization Fund, it was recently revealed by Sir John Simon, held on March 30, 1937, about \$934,000,000 in gold and undoubtedly has materially increased its gold holdings during the past three months. The Dutch and other stabilization funds very likely hold gold also. The amount still held in private hands is therefore but a small fraction of the total formerly

unaccounted for, and doubtless well under \$500,000,000.

Thus at the present rate the dehoarding movement will soon expend itself; probably it will proceed much more slowly as the hoards dwindle. As dehoarding ceases the supply offered to central banks and in the London bullion market will be reduced to newly-mined gold and secondary gold shipped from the Far East. On the basis of the present output, outside of the Soviet Union, the supply to be absorbed will approximate \$80,000,000 to \$90,000,000 monthly, plus any shipped by the Soviet Union. Assuming that the central banks and Treasuries now hold in their disclosed and undisclosed accounts about \$25,000,000,000 of gold, the rate of the growth of reserves in the future, based on new production, should be in the neighborhood of 5 per cent per annum.

The annual rate of increase in the volume of business, averaged the world over during the last fifty to seventy years, has been estimated at 3 to 4 per cent. Therefore, a 5 per cent increase in the world's production of gold might be expected to produce a rising price-level if distributed proportionately. As gold is no longer used in hand-to-hand transactions, it may be assumed that, normally, nearly all of the new production not used in the arts will find its way into bank reserves.

In considering the effects of an increasing flow, allowance must be made for variations in the distribution between the several countries, dependent upon the demand and the influence of exchange rates. Presumably all of the important countries will desire that the mint rates of all countries shall be fixed by mutual conference and agreement, with a view to maintaining stability in the exchanges. An opportune time for such action will be when the dehoarding process is deemed to be practically completed.

It is by no means unlikely that other countries, in addition to the United States, Great Britain and the Netherlands, will absorb gold in the near future. The central banks of the chief British Dominions, the Scandinavian countries, and several South American republics, have substantial sterling balances in London; these balances have been increasing during the past few months and it would be practicable to convert some of them partially into gold. Possibly the unwillingness of certain countries to acquire the actual metal arises from fear that new gold would enlarge the credit base and lead to a dangerous expansion of credit. In individual cases, however, steps have been taken by central banks to counteract the effects of additions of gold. The Reserve Bank of New Zealand has been given power to increase the minimum cash requirements of the commercial banks, while in the Scandinavian countries and Argentina acquisitions

of gold or exchange are being sterilized in the manner adopted by the United States Treasury.

The Banking Position

As heretofore, the gold imports into this country have been absorbed in the sterilized or "inactive gold" account, which totaled \$1,058,000,000 on June 26, and the banking position has not been affected by the movement. Excess bank reserves show a tendency to fluctuate around the level of \$900,000,000 for the whole country. They were temporarily reduced in connection with Treasury operations on the 15th, but rose again thereafter. On that date the Treasury offered two issues of notes of \$400,000,000 each, one to mature in $2\frac{3}{4}$ years and bearing $1\frac{3}{8}$ per cent interest, and the other maturing in $4\frac{3}{4}$ years and bearing $1\frac{3}{4}$ per cent interest. Both issues were heavily over-subscribed, and went to a premium in the open market. A total of \$852,784,300 was allotted on the two issues, of which \$300,000,000 was used to redeem Treasury bills maturing June 16, 17, and 18, and the balance represented new money. Payment for these note issues, together with the quarterly income tax collections, dropped excess reserves to \$750,000,000, but the loss was largely regained through subsequent Treasury disbursements, including the bill redemptions referred to.

The bulk of banking subscriptions to the new notes was paid for not in cash but by writing up deposit credits to the Treasury. For the reporting member banks in 101 cities, Government deposits rose \$444,000,000 in that week, and holdings of Government securities increased temporarily \$298,000,000, declining \$182,000,000 in the following week.

The trend of commercial, industrial and agricultural loans continued upward with a rise of \$90,000,000 in the three weeks ended June 16th, but then declined \$16,000,000 in the following week. Loans to brokers likewise have advanced moderately despite dullness in the security markets. The trend of total loans and investments therefore has been upward, reversing the decline which began during March; and the total deposits of the reporting banks have recovered to the highest level since the end of April.

Money and Bond Markets

Money markets have not been affected by these shifts. The tone has continued easy, with a further slight softening in the sensitive short-term rates. The rate on the weekly offerings of 273-day Treasury bills has averaged slightly lower than in May, ranging between 0.545 and 0.619 per cent, annual rate, during the month. On the 22nd bankers' acceptance rates were reduced by $\frac{1}{16}$ to $\frac{3}{8}$ per cent, bringing the 90-day maturity to $\frac{1}{2}$ per cent bid, $\frac{1}{16}$ asked. These slight reductions reflect the

reduced supply of Treasury bills, due to the redemptions, and the preference of foreign funds here for extreme liquidity, rather than any material change in the money position.

The bond market has been unusually dull. Most of the highest-grade issues held steady, but prices of many of the second-grade and junior obligations showed softness, following the lead of the stock market, and reflecting the unsettlement caused by the widespread strikes. The market for United States Government long-term bonds was inactive but steady, with the excellent reception of the new Treasury notes and the lower rate of discount on Treasury bills both being regarded as favorable factors.

Offerings of new securities were comparatively light in the first half of June, but expanded substantially during the last half. As in other recent months, proceeds of the new issues will be used more largely for refunding purposes than for new capital expenditures.

A False Alarm on Prices

The rise of commodity prices, which culminated early in April, was not up to the publicity it received, and much of the comment was unwarranted. Although certain commodities, influenced by abnormal conditions, advanced sharply, the official price-indexes show but moderate gains on the averages, even at the peak. The "all commodity" index of the Bureau of Labor Statistics, based upon 1926 prices as 100, shows that the highest record in 1937 to date was made on April 3, at 88.3 per cent of the 1926 level. This was up from 79.2 on April 4, 1936 by 9.1 points.

However, the complete Bureau of Labor index tables are based upon 784 commodities, which vary widely in their relative fluctuations. Therefore, an "average" over the entire list does not tell all that is needed for an understanding of price fluctuations. An intelligent reader wants to know *which* prices have changed, *why* they have changed, and *what* or *who* may be responsible for the changes. The Bureau of Labor tables include two groups, indexed separately, as "finished goods" and "raw materials," the former including 582 commodities and the latter 109, and during the period under review (April 4, 1936 to April 3, 1937), on the average, prices of the former group advanced 5.8 points, and the latter 14.0 points. Obviously prices of the latter entered largely into prices of the former, with the result that the average rise of the 784 commodities was 9.1 points.

Moody Index of 15 Staple Commodities

For comparison with these figures, we give the Moody index-table of 15 staple or basic commodities which are among the most im-

portant commodities of world trade. The list and weighting are as follows:

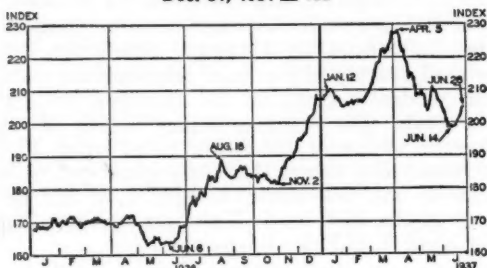
Wheat 13; Cotton 13; Hogs 13; Steel Scrap 10; Raw Sugar 10; Wool 7; Copper 5; Hides 5; Corn 4; Rubber 4; Silk 4; Coffee 4; Lead 3; Silver 3; Cocoa 2; Total 100.

This index dates from the end of 1931, and is based upon quotations of December 31, that year. It is commonly accepted as representative of commodities which fluctuate freely. There are numerous price indexes but these two illustrate the difference between the most stable and the most sensitive to change. Following are the index numbers which reflect the principal movements of this Moody list from the first week of June, 1936, to the fourth week of June, 1937, as follows:

June 6, 1936.....	162.9
Aug. 18, ".....	188.9
Nov. 2, ".....	181.3
Jan. 12, 1937.....	209.8
April 5, ".....	228.1
June 14, ".....	198.2
June 28, ".....	205.0

Each stage of these movements is clearly depicted by the graph which appears below:

Moody's Index of 15 Staple Commodities.
Dec. 31, 1931 = 100



Spot Commodity Prices

To enable the reader to check the index numbers readily, we give below the actual market quotations upon which the most significant numbers are based. The dates correspond approximately with the index numbers above.

Spot Commodity Prices

Commodity	June 6, 1936	Aug. 18, 1936	Jan. 12, 1937	April 5, 1937	June 14, 1937	% from Low to High
Wheat	\$0.90	\$1.20	\$1.39	\$1.50	\$1.21	+66.7
Cotton	11.78c	12.36c	13.07c	15.06c	12.44c	+23.7
Hogs	9.90c	11.00c	10.35c	10.02c	11.26c	+26.5
Steel Scrap	\$14.00	\$15.75	\$19.75	\$23.75	\$18.25	+79.2
Sugar, Raw	2.85c	2.80c	2.90c	2.55c	2.55c	+24.5
Wool	89.00c	89.00c	\$1.14	\$1.18	\$1.02	+23.1
Copper	9.50c	9.75c	13.00c	17.00c	14.00c	+78.9
Hides	11.50c	11.00c	14.50c	16.50c	15.25c	+65.0
Corn	\$0.62	\$1.12	\$1.13	\$1.33	\$1.16	+128.4
Rubber	15.62c	16.38c	21.95c	26.27c	19.75c	+68.6
Silk	\$1.45	\$1.81	\$2.11	\$2.00	\$1.85	+45.5
Coffee	8.63c	9.75c	11.37c	11.25c	11.63c	+41.9
Lead	4.63c	4.63c	6.02c	6.97c	6.00c	+68.0
Silver	44.75c	44.75c	44.75c	45.25c	44.75c	+3.1
Cocoa	5.93c	6.55c	13.05c	11.10c	7.40c	+130.8
"Iron Age"*	2.097	2.159	2.330c	2.605c	2.605c	+24.2

*On account of the importance of steel, we add to the Moody list the Iron Age "Composite steel quotation," representing six important crude steel products.

The Significance of the Tables

It is evident from these tables that farm products and raw materials — not the products of "capitalistic" industry — led the price advances from the Spring of 1936 to the Spring of 1937. In other words, responsibility for the movement does not lie with the highly organized, so-called "monopolistic" industries, said to be "controlled by concentrated wealth"; on the contrary, as we shall see, the influence of the latter was constantly against the rising trend, and effectively so.

Obviously an important factor in the general rise of prices in the last year has been the general drought which shrivelled the crops in July and August, 1936, as may be seen by the price line of the chart. It was the more so, because droughts and floods in earlier years had cleared away the surplus stocks of farm products which had caused the low prices of 1931 and 1932, and thus set the stage for the rise of living costs, and the resultant demands for higher wages all around the circle. Two wage-increases in the steel industry, of 10 per cent each, one on November 16, 1936 and the other on March 16, 1937, were included in the rise of steel products, and must be allowed for there. It is also noteworthy that while the prices of crude steel products advanced less than 25 per cent, in the regular channels of trade, active bidding for scrap steel in the open market caused that price to rise more than three times as much. This seems to acquit the steel industry of the implied "conspiracy" charge, for costs *other* than wages also had risen.

Wage-increases have been general, and obviously have been a factor in the rise of prices, by increasing both the cost of, and demand for, products, but the movement to shorten the work-week in all industries to 40 hours or less, at the same weekly pay, may be well called a "twin factor." Moreover, mention may be made of the extraordinary disorders with which the industries have had to contend in the last six months, and which have obstructed their operations and increased their costs.

The war scare and armament expenditures in Europe have been an influence to be counted by themselves, for they have been large in volume, abnormal in character and were added to a "recovery" demand that already was taxing productive capacity. They were especially influential in the rise of the metals after January 16. The pressure for war-equipment has been an emergency demand, which brooked no delay and counted no costs.

And, finally, the largest factor in the rise of prices of the past year has been the restoration of "order" in the world's economic system—the recovery of confidence, enterprise, trade and employment, after a period of disorganization,

pessimism and loss of buying power, extending over seven years. In this period, a cycle has been completed, from the disastrous collapse of values in the period 1929-1932, to the congestion of orders at the beginning of 1937. Prices advanced inevitably.

The Struggle for Recovery

The official record of the meagre earnings of most industries in recent years serves to emphasize the statement that the largest factor in the rise of prices has been the recovery of "order" and purchasing power in the economic system. The purchasing power of every individual or group of the system exists in what it has for sale, or exchange, in the markets, and every "depression" that ever has been known has been caused by disorganization and disorder in the exchanges. Unless the exchanges are kept in balance, trade declines inevitably.

A long period of industrial idleness results in a serious loss of productive capacity, both in the personnel, which changes constantly, and in the machine equipment, which deteriorates from non-use and obsolescence. In the processes of reconstruction the metals have a highly important part. They are not only the principal materials of constructional work, but compose the tools and implements—the necessary equipment—of organized society. Production and transportation are dependent upon them, and although the metals themselves are among the most durable forms of property, science and invention are continually working them over to new uses, creating new values and affording no end of employment to labor. The importance of "scrap" in the metal markets is evidence of this.

After years of depression, with industrial enterprise dead, a general recovery of trade causes a concentration of demands upon the metals, for repairs, replacements and new construction in industries and services of all kinds. Thus it has long been said of the steel industry that it has been habitually "prince or pauper" meaning that it has swung heavily up and down with the business cycle.

The Recovery of 1936-1937

The metal industries had been among the most deeply depressed, and apparently were over-developed for years to come. Copper was menaced by newly-opened and high-grade ore deposits in Africa, which promised very low costs. This situation was regarded so seriously that in 1932 the United States Congress placed a duty of 4 cents per lb. on copper imports, to assure the home market to the home industry.

However, in 1936, the demand for copper revived, and first in Europe, which has led the price advance over the past year. The new copper duty has not affected the price during the past year, because the movement of copper

has been from, not to, the United States. If the domestic price had not followed the London price, this country's production would have been drained away, and this market would have been bare of supplies. However, it was not until January 14 that copper reached 13 cents per pound in this country, and by that time most of the domestic mining companies had sold their production ahead for from four to six months. Thus, the "spot" quotations which followed have concerned them but little, for they have had little "spot" copper for sale. These quotations crept upward until they reached 17 cents, and have since declined to 14. We gave in our May number an estimate from a competent source that while the total sales of copper at from 10 to 14 cents had amounted to over 360,000 tons, the total sales at from 14 to 17 cents had not exceeded 60,000 tons; but the latter received the publicity. Meantime, as the price advanced, old copper mines, long closed down, have been gradually unwatered, re-equipped and are once more contributing to the supply. Furthermore, the copper companies have been busy with plans for extensions, new openings and increased production. In recent months the Phelps Dodge Corporation announced a \$40,000,000 program of expenditures for such purposes, and, of course, all have been doing whatever might be done promptly. The monthly production of copper in the United States in the first five months of 1937 averaged 84,000 tons, which compares with 58,000 tons in the corresponding months of 1936, and 38,000 in the like period of 1935. What would the price have been in 1937, without the increase of production?

The Iron and Steel Industry

The steel industry has been in a like situation. Following the years of depression in the eighteen-nineties, when the industry was suffering from excess capacity, a series of consolidations were effected, to reduce production costs, culminating in the organization of the United States Steel Corporation in 1901. At that time the steel capacity of the country was calculated at 21,463,000 tons per year. Then came years of recovery, interrupted by the panic of 1907, but followed by a moderate recovery to 1914, which ushered in the Great War, causing the greatest expansion ever known.

In 1920 steel capacity was estimated at 55,637,000 tons yearly. In 1928, Mr. Charles M. Schwab, in an address as President of the Iron and Steel Institute, stated the capital investment of the iron and steel industry as \$5,000,000,000, of which he said \$1,500,000,000 had been invested in the 14 years following the outbreak of the World War. He added that while the economies accomplished by improved methods in this period had effected an average saving of \$7.27 per ton, the margin of profit had

been no larger since than before, because all of the competing companies were doing the same thing.

In 1928 and 1929, the steel industry continued such expenditures on a very large scale, but naturally they were reduced during the depression. A reviving demand in 1935 prompted resumption in that year to the extent of \$140,000,000, and in 1936 they were raised to \$216,000,000. Nevertheless, in the first quarter of 1937 the demands on the steel industry were so great that the appropriations from January 1 to July 1 have aggregated approximately \$300,000,000, or a total since the beginning of 1935 of over \$650,000,000, the greater part of which has been obtained by the sale of obligations ranking ahead of ownership rights. This record is convincing evidence of bona fide efforts by the steel industry to provide an adequate supply of steel at a normal price level. We have compared above the price of new steel products in the regular channels of trade with the price of steel scrap, which is the competing supply. With the \$650,000,000 of appropriations only in part effective upon production, the capacity of the steel industry is now approximately 70,000,000 tons annually.

In the twelve years 1921-1932 the net annual earnings of the 20 leading iron and steel companies of the United States equalled, on the average, 4.3 per cent of their gross income, while in the seven boom years 1923-1929—with almost capacity-operations—the corresponding average was 7.1 per cent. In this connection, it is also in order to say that near the close of the year 1936, Mr. E. G. Grace, President of the Bethlehem Steel Corporation, and at that time also President of the American Iron and Steel Institute, made the statement in a public address that the prices of steel products in 1936 had averaged \$11 per ton less than the average for the year 1923; also that this reduction had accomplished a saving to the American public of \$300,000,000 in the single year, 1936, and would be the basis of more in every year of the future. He also said that the average wage in the industry was higher than at any time in the past, and the hours of work shorter; and, finally, that the industry had more employes on its payrolls than ever before.

These increased supplies of iron and steel (which have gone mainly into machine equipment), thus made available to the public at lower prices, and the increased employment for wage-workers at higher wages, have been virtually profit-sharing dividends, far exceeding in value the dividends paid to the owners of the iron and steel properties. No better demonstration is needed of the inherent forces that have made for industrial and social progress, and are still achieving both, despite the

endless obstructions and embarrassments that constantly are causing disorder and waste.

Improvement in Shipping

A proof, as well as a consequence, of the revival of international trade in the past two years is the improvement that has been taking place in world shipping. Few if any businesses suffered more during the depression than did shipping. Already in a generally unsatisfactory position as a result of over-building, the industry was hit doubly hard by the slump in overseas trade and the shrinkage in the demand for cargo space after 1929. Freight rates collapsed, profits (if any) declined or disappeared entirely, and idle tonnage increased. Many governments, in the effort to foster their own merchant marine, continued and even extended their subsidies to shipping and ship-building, thus adding to the general over-capacity and intensifying competition.

Within the past year the situation has been changing. Reflecting mainly the substantial expansion in the international movement of goods, especially raw materials, surplus tonnage has been rapidly absorbed and by now little efficient capacity remains not utilized. Freight rates, in consequence, have advanced. Thus in May, 1937, the London Economist's index of tramp freight rates stood at 133.1 (1913 = 100) compared with 76.3 in May a year ago. In many instances space has been bid for at rates far above those quoted in the posted schedules. The rate changes have been very mixed, however, and in numerous cases it will be found that the trend has not followed the Economist's index and that rates are still severely depressed.

On some trade routes the movement of merchandise has increased to a point beyond the record pre-depression years. In the Far East trade, for example, cargoes of scrap iron (often carried at handling charges for use as ballast) have been refused to make space for more lucrative trade; Japanese shippers of steel are reported to have offered to pay treble the standard rate. Similar crowded conditions exist on the trade routes between South Africa and this country and on the Europe to River Plate and Australia routes, etc. Incoming freight to New York is considerably greater than last year, the American passenger travel has gained and the Summer months sailings are crowded. The improved outlook in shipping, and the speculation as to war in Europe, are also reflected in the better market price of old ships changing hands.

Greater movement of freight and passengers is important not only as a proof of expanding world trade, but because the returns from shipping sources contribute an important item in the international balances of payments of Great

Britain, Netherlands, Norway, Greece and other countries. In 1936, for example, Great Britain obtained for shipping services performed for other nations £95,000,000 net against only £65,000,000 in 1933. Norway depends principally on shipping to pay for its excess of merchandise imports. Moreover, increased activity in shipping means benefits passed on to many other industries, including shipbuilding, coal, fuel oil, steel, etc.

Origin of Surplus Tonnage

The difficulties of the shipping industry, like those of so many other industries, date back to the war. During the period of the conflict the United States had begun to build ships to replace lost Allied and neutral tonnage, and this building continued under the influence of a temporary shortage of merchant tonnage and of the high post-war freight rates until by 1921 our merchant marine employed in foreign trade had grown to 11,077,000 tons, compared with only 1,019,000 tons in 1913. The British, anxious to reestablish themselves on their old trade routes, and also encouraged by high freight rates, subsequently rebuilt their commercial fleet at a very high cost. Germany, forced to surrender most of her ships in accordance with the peace treaty, also entered the race and in a few years built a fleet which approached in size her pre-war tonnage. At the end of 1923, the world had 40 per cent more ocean-going tonnage than in 1913, while the volume of international trade was still about 15 per cent smaller than before the war.

This maladjustment was reflected in idle tonnage, which in 1923 amounted to about 8 million tons, with the United States contributing about half. Freight rates collapsed, the index based on 1913 as 100 declining from 594 in February, 1920, to 110 in 1923. Since operating and building costs remained at least twice as high as before the war, the financial results of representative shipping companies became even more unsatisfactory.

With the expansion of international trade in the later 'Twenties, some of the shipping lines were able to do fairly well despite extremely competitive conditions; but the good showings

were the exceptions. World tonnage continued to grow, despite substantial scrapping in the United States. By 1929 the world registered tonnage stood at 65.6 million tons, almost 50 per cent larger than in 1913, whereas the volume of international trade shown in the accompanying table was only about one-fourth greater than before the war. Excess tonnage was still unabsorbed, and freight rates showed a further decline.

Recovery from the Low

The low point of the shipping trade occurred in the third quarter of 1932, when the physical volume of world trade, as measured by the League of Nations index, also touched bottom at approximately 68 per cent of the 1929 level. In the Summer of that year about 14 million tons, or one-fifth of the world tonnage, was reported laid-up. Actually the plight of shipping was worse than indicated by these figures because of the many ships sailing with only partial loads.

During the next two years, 1933-1934, the outlook for shipping improved but little. More definite signs of improvement came in 1935, when international trade was stimulated by increased demand for, and higher prices of, raw materials. The development of mineral and agricultural production in new areas, particularly in Africa, and the accelerated industrialization of Eastern Asia and parts of South America during the depression years, have created new trends in international trade, both as to markets and type of products moving. Crude rubber, wool, cotton and steel scrap have been moving to Japan in volume hitherto unknown, while industrialization of other Asiatic countries and Latin America is causing new demand for such raw materials as coal, oil, copper, etc. Shipments of American automobiles, highway construction and other machinery, electrical equipment, etc., to certain countries have assumed predepression proportions. An especial feature of American exports has been the large quantities of capital equipment forwarded to many countries, heretofore primarily raw material producing, for development of local industries to supply local needs for textiles, shoes, tires and similar types of consumption goods.

Scrapping of obsolete vessels has also played an important part in bringing about the equilibrium between the supply and the demand for ship tonnage. The scrapping of surplus tonnage was most extensive in the United States. Compared to 11,077,000 tons engaged in foreign trade in 1921, we had in 1936 only 3,250,000 tons afloat. Great Britain initiated her own "scrap and build" scheme in 1934. This plan provided for a subsidy for building or modernizing of vessels on condition that for every ton of new shipping built, two tons of existing

Shipping Situation 1913-1937

	Shipping Tonnage		Index	Volume of World Trade	Freight Rates (Economist Index)	World Laid-Up Tonnage (Mill. Tons)
	U. S.* (Mill. Tons)	World* (Mill. Tons)				
June 30						
1913	3.0	44.5	100	100	100
1919	10.8	48.6	109	73	439†
1923	14.6	62.9	141	85	110	8.0
1929	11.8	65.6	147	122	97	3.4
1931	11.0	68.6	154	102	80	10.8
1932	10.9	67.1	151	90	75	14.2
1933	10.7	65.3	147	93	72	11.7
1934	10.4	62.9	141	96	73	7.7
1935	10.2	62.2	140	100	74	5.6
1936	9.9	62.4	140	105	85	E2.0
1937, May				E113	133	

*U. S. Lake tonnage excluded. †1920. E—Estimated.

tonnage be scrapped, and that for every ton modernized, one obsolete ton be scrapped. Today the British tonnage, although about 3,000,000 tons lower than in the peak year of 1930, when it amounted to 21,000,000 tons, is considerably more efficient and more able to earn its keep.

Other maritime nations, particularly Norway, have adopted similar modernization policies. As a result, the world tonnage dropped from 68.6 million tons in 1931 to 62.2 million tons in 1935, with a small increase in 1936. The efficiency of the tonnage of most leading maritime nations is again rising.

Improvement in Shipping Income

In surveying the financial results of the shipping industry, it is important to differentiate clearly between American and foreign shipping. In general, the American companies engaged in foreign trade have operated at a distinct disadvantage as compared with their foreign competitors, owing to the higher original cost of ships built in this country over those built abroad and to the higher cost of operating ships under American registry.

Unfortunately no recent official figures are available as to the income of the American shipping industry. The latest Treasury Department "Statistics of Income", for the year 1934, show that of the 2,031 active corporations engaged in shipping and allied activities that year, only 809, or 39.8 per cent, reported any net income, while 1,222, or 60.2 per cent, reported deficits. The total net income after taxes of the first group was \$32,148,000, and was practically offset by the \$28,746,000 deficits of the second group.

Earnings of All Shipping Corporations in the United States
(In Thousands of Dollars)

Year	Gross Income	% Report Income	% Net Inc. After Tax	Total Deficits	Bal. Net. Income	% Net to Gross
1916.....	\$ *	71.1	\$227,147	\$ 6,556	\$220,591	*
1917.....	*	*	*	*	*	*
1918.....	*	55.9	53,422	8,362	45,060	*
1919.....	*	64.7	76,482	9,929	66,553	*
1920.....	*	58.4	62,142	16,241	45,901	*
1921.....	*	46.2	25,823	33,851	D-8,028	*
1922.....	*	54.5	32,033	30,695	1,338	*
1923.....	*	56.8	36,669	31,176	5,494	*
1924.....	*	53.1	30,317	24,222	6,095	*
1925.....	323,841	54.7	35,642	19,371	16,271	5.0
1926.....	448,873	55.2	36,925	15,205	21,720	4.8
1927.....	407,706	59.2	35,744	25,913	9,831	2.4
1928.....	486,527	62.7	42,211	17,642	24,569	5.1
1929.....	507,603	62.1	53,618	13,575	40,043	7.9
1930.....	436,668	55.8	31,265	25,144	6,121	1.4
1931.....	358,751	45.2	19,985	35,667	D-15,682	D-4.4
1932.....	325,226	28.5	11,499	34,468	D-22,969	D-7.1
1933.....	364,524	34.9	15,413	25,979	D-10,566	D-2.9
1934.....	587,815	39.8	32,148	28,746	3,402	0.6

Source: Compiled from annual Statistics of Income, Treasury Department. *Excluding inactive corporations. *Comparable data not reported. D- Deficit.

It will be seen from the table that in most of the years since the ending of the war boom

in 1920, the net income after taxes has been largely offset by deficits, and in the years 1921, 1931, 1932 and 1933 the combined figures show an excess of deficits.

During this 14-year period, an average of only 50.6 per cent of all active companies reported a profit, and their net income after taxes aggregated \$439,292,000. The remaining 49.4 per cent had combined annual deficits ranging from \$13,575,000 in 1929 to \$35,667,000 in 1931 and aggregating \$361,653,000 over the period. For every \$1.00 of reported net income after taxes, there was 82¢ of losses.

These statistics of income cover all corporations classified in "Water transportation." They were formerly, but are no longer, divided into the principal sub-groups including (1) Ocean lines, transoceanic and coastal, (2) Lake, sound, bay and river lines, (3) Marine salvage and wrecking, and (4) All other water transportation, not precisely defined. If separate figures were available for the transoceanic lines, which operate under entirely different conditions than those engaged in coastwise trade and on inland waterways, and protected from foreign competition, it is probable that the showing would be even worse than that indicated by the totals for all companies as now lumped together.

Since 1934, the increase in shipping traffic and revenues has been reflected in an improvement in net income (or reduction of deficits) by leading companies in this and other countries which have published their financial statements.

The American Merchant Marine

A new plan for assistance and modernization of our merchant marine was put forth in the new Merchant Marine Act, approved in June, 1936. The former mail contracts were to be terminated by June 30, 1937 and to be supplanted by operating differential subsidies under which the Government will pay the shipowners the difference in cost between operating American and foreign flag ships on the same routes or under comparable conditions. The Act also provides for an aid in construction, also through differential subsidies, whereby the Government agrees after approving the building of a new ship to pay, up to a certain percentage, the difference in the cost of building the vessel in an American and foreign shipyard. A new agency was established, the Maritime Commission, which assumed the shipping activities formerly centered in the Emergency Fleet Corporation and Shipping Board. Aside from making investigations, studies and surveys in connection with the maintenance and development of the merchant marine, the Commission will determine minimum wages, manning scales, and reasonable working conditions aboard ships operating under Government subsidies.

A prime consideration of this new policy is to build up a large American merchant fleet as a naval and military auxiliary in time of war, and the Act provides that ships given financial aid by the Government become automatically available for national defense. Mr. Joseph P. Kennedy, Chairman of the new Maritime Commission, declared in a recent address that:

The Government, with the assistance of the shipping industry, must begin a program which will equip our overseas trade so that it may be second to none in first-class equipment. We are going to lay the keels for new fast ships. And we are going to do it now.

Mr. Kennedy was quoted in a newspaper interview preceding this address as saying that he knew no more enticing field for American capital at present than the shipping industry, and pointing out that should private capital be tardy about availing itself of its opportunities, the Maritime Act empowered the Government to take the initiative in a shipbuilding program.

Improvement in Ship Design

Progress in ship design and shipbuilding technique has continued steadily year by year. Stimulated by the development of Diesel engines, the designers of steam plants have developed smaller and much more efficient turbines than those built during the war. Instead of steam pressures of 200 pounds per square inch, the modern practice is to use 400 to 600 pounds. New and improved types of boilers are being built to supply steam at higher pressure and temperature, and the metallurgists have developed new alloys to resist the peculiar corrosion of metal at high temperatures caused by the chlorine present in sea air. Consumption of fuel oil and water have been reduced materially.

Diesel engines have had their speed, their power and their efficiency increased at the same time that their weight was being reduced, and have been installed to an increasing extent for auxiliary power, such as driving electric generators.

In a paper read recently before the British Institute of Transport, Sir Thomas Royden, President of the Chamber of Shipping of the United Kingdom, and Director of the Cunard-White Star Line, summarized some of the changes in motive power up to the present time:

The change from coal to oil as fuel which has taken place during the last two decades has been remarkable, as a perusal of the comparative figures given in the Report of Lloyd's Register of Shipping for the year

1935-36 will show. In 1914-15 the Register book recorded that the boilers of 1,310,000 tons gross of vessels were fitted for oil burning. By 1936-37 this figure had grown to the astonishing total of 19,766,000 tons. Whereas, in 1923-23, 73.9 per cent of all vessels were fitted for coal and 26.1 per cent for oil, in 1936-37 these figures had changed to 49.9 per cent and 50.1 per cent, respectively, and a fuel consumption of .586 pounds per hour for main engines and main engine auxiliaries has been obtained.

In the last twenty years the tonnage fitted with Diesel engines has risen from 234,000 to over 12,290,000 gross.

Whereas the typical good freight ship built during the war had a speed of about 10 knots per hour, the increases and improvements in motive power have given the modern freight ship a speed of 13 to 15 knots, and some do even better.

While new ships that embody these recent engineering improvements would have somewhat lower operating and maintenance costs than similar ships built several years ago, the possible economic advantages may be outweighed for a time by the heavy capital outlay that would be involved in building new ships for doing the same work as the present fleet. The cost of a fast, modern vessel of medium size (not a "super-liner") for carrying passengers and freight runs into several million dollars, and a number of such vessels are usually needed to provide a regular line of service between different countries. Upon this investment, the interest and depreciation charges alone would amount to approximately 10 per cent annually. Faced with higher operating costs and other disadvantages, and uncertain as to the amount and restrictive conditions of the future Government subsidies under the new law, and as to Government competition, it is natural that American companies should begin slowly in investing additional capital for the building of new ships to engage in the highly-competitive world trade.

Looking at the situation broadly, it must be borne in mind that shipping as well as shipbuilding, because of its essentially international character, is affected by economic nationalism, perhaps more than any other activity. With a marked advance in freight rates, there is always danger in the added incentive to nationalistic efforts to promote shipping, as well as in the natural propensity, common to all industry, to build up over-capacity during periods of activity. Moreover, it is a well established fact that governments are even more likely to go wrong in this respect than are private corporations which risk their own money.

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